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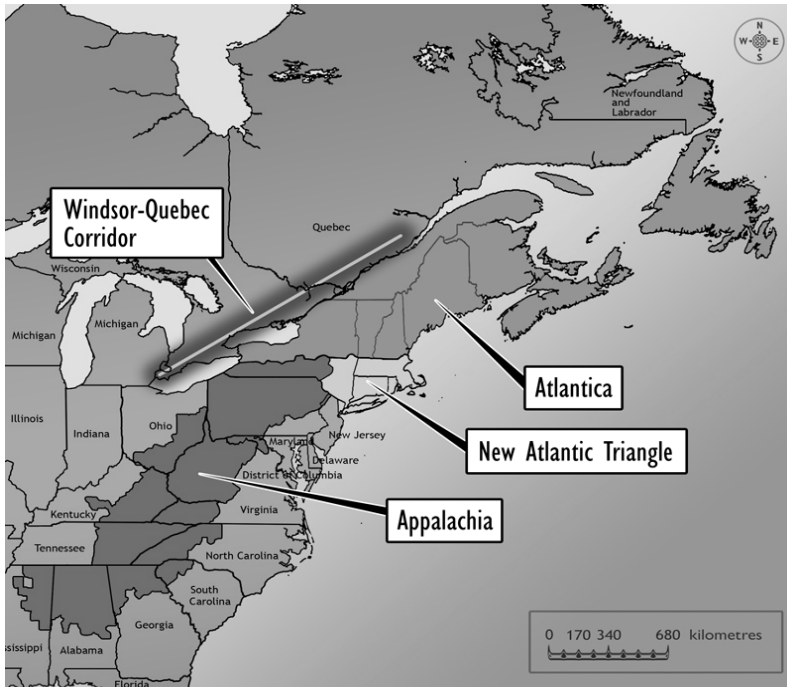
The Senate Standing Committee on
Banking, Trade and Commerce

by

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Good afternoon Mr. Chairman, Senator Grafstein, distinguished members of the Committee. It is a privilege to be here to share the work of the Atlantic Institute for Market Studies; specifically our research on interprovincial trade barriers and their relationship to an effective Atlantica; our cross-border region. I would also like to extend the best wishes of our President, Dr. Crowley and his regrets for not being here.



First, I would like to introduce you to Atlantica. We define Atlantica as the Maritime Provinces, Newfoundland, south-shore Quebec, northern New England and upstate New York. At first glance this may seem an ad hoc definition. Why not Boston? Why Buffalo and not Toronto? Clearly Boston and Toronto are markets that have strong, historic relationships with Atlantica. The answer lies in finding common interest in public policy. Boston is

part of the New Atlantic Triangle; a region that extends from New York City, up to Boston, over to Albany and back down to New York. For example, Boston finds its transportation synergies in this region as part of New York's "Port Inland Distribution Network." Equally, Toronto is a part of the Windsor-Quebec Corridor and aligns its policy interests with these partners.

This region of common interest is no accident. The people of Atlantica have a shared cultural and economic history, a common ancestry through cross-border migrations and a shared geography. One of the key features is that most of the internal corridors run north-south along various rivers. Unfortunately, east-west transportation has been limited by rugged natural barriers and the political border; which until relatively recently has been guarded by high tariffs. So although much of the 20th century history of Canada and the United States can be read in terms of a push west, in many cases the start of the drive was Montreal or New York, leaving Atlantica behind.

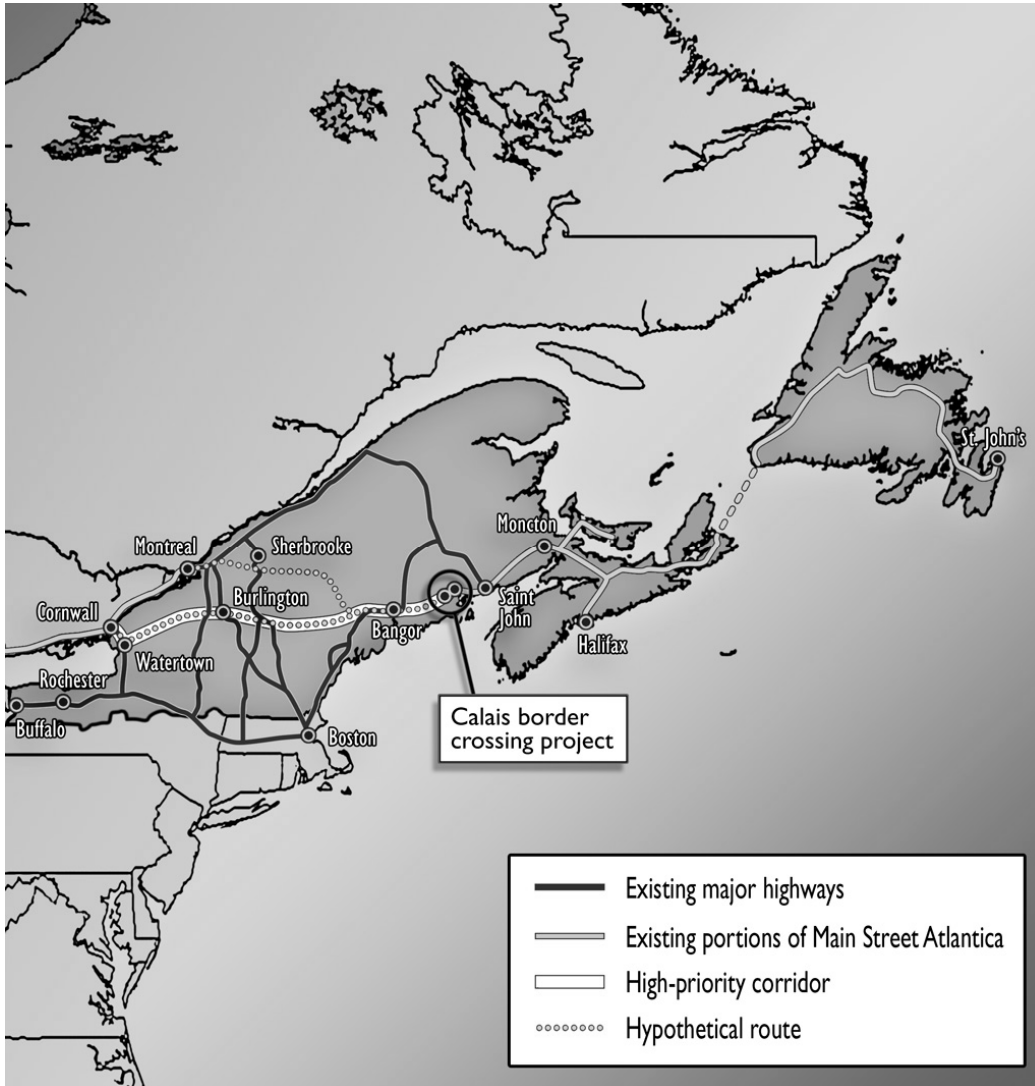
The economic health of Atlantica should be a happy story. We are blessed with many resources including oil and gas, pulp and paper, gypsum, many forms of agriculture, aquaculture, clean air, a temperate climate and the most beautiful shorelines in the world. Furthermore, we are adjacent to or en route to the major markets of the world and have a world-class port. The Policy Research Initiative found Atlantica second only to the Pacific Northwest Economic Region, in the overall strength of its connections.

There is also a pressing opportunity for Atlantica housing a gateway for increased trade between the continental interior and the world, especially south Asia through the Suez Canal. This opportunity has been made possible by four major factors:

- 1) The natural gifts of an ice-free, deep water port on the great circle route between Europe and New York.
- 2) The clogging of the west coast ports and their associated rail corridors into the interior under rapidly growing trade with Asia.
- 3) The growing dominance of the gargantuan post-Panamax ships which limit the number of available ports and can not go through the Panama Canal.
- 4) A corridor serviced by CN; the world's most efficient railway.

The U.S. understands the need for cross-border cooperation; a fact most clearly seen in the high priority corridor designation by Congress of an east-west highway through Northern New England – a project expected to cost approximately \$900 million. Furthermore the involvement of the Atlantic provincial governments and Transport Canada in the \$1 million Northeast CanAm Connections project has been requested. This project seeks to detail the economic benefit which can be derived from regional synergies. These initiatives are tremendously important for Atlantica because they improve access to the major markets of Boston, New York, Montreal and Toronto. And equally important is the historic fact that economic growth happens most dramatically and the intersection of corridors; in this case our traditional north-south highways with the new east-west highway.

We envision a future Atlantica to look something like:



So where are the problems?

Transportation is a major issue; the benefits of free trade are severely limited if transaction costs become overwhelming. The success of the gateway initiative depends, in part, on establishing the region as transportation-friendly. As such, harmonizing vehicle regulations and standards throughout the cross-border region, upgrading some physical barriers (e.g. the twinning of the Trans-Canada at Rivière-du-Loup) and updating both the Transportation and Marine Acts would all be useful. I'd like to make a special point of recommending the staged removal of the 25% tariff on imported ships would allow for a renewal of the Canadian merchant fleet and go a long way to making interprovincial trade through short sea shipping viable.

An example of the problem can be seen in the status of long combination vehicles or "road trains." These vehicles have been used successfully in Quebec, the western provinces and many states for many years, resulting in higher productivity and

economic viability over a larger distance. However, adoption in Atlantic Canada has been restricted to a pilot project between Moncton and Saint John. The consequence is that trucks from Montreal to, say, Halifax travel at the common regulatory configuration and not the most efficient configuration. To change this, advocates must go from jurisdiction to jurisdiction making their case and risking varied responses – a long and arduous process which may bring no benefit.

Administrative requirements such as head office or residency requirements and multiple filings provide a strong disincentive to setting up a branch office in Atlantic Canada. In fact, it is structurally more efficient to leverage the mutual recognition of professional certification guaranteed under the NAFTA and service Atlantic Canada from the U.S. This is most dramatically seen in our acute labour shortage which is complicated by recertification. The usual example in the literature is architects, however problems are widespread. For example, my family moved to Halifax from Regina for health reasons. My wife's credentials in Early Childhood Education were not accepted in Nova Scotia and she was required to take an additional course delaying her workforce participation.

Barriers in the energy sector, especially power transmission restrict growth potential. The key issue here is clarifying the underlying economics. Several years ago, the New England States negotiated a common transmission rate around which retail and distribution policy can be developed as appropriate. This standard allows for a realistic evaluation of alternatives in generation and transmission. Alas Atlantic Canada does not have a common rate. This lack obscures the true cost of power generation and arguably allows inefficient plants to continue at a cost to the consumer. More to the point of this presentation, it undermines cross-border co-operation on the development of a more robust regional power grid.

Lastly, I realize this committee is tasked with examining interprovincial barriers, however I would like to take the opportunity to point out that there remain a few barriers to trade with the U.S. Of particular interest are a) a reiteration of the need for harmonization of technical vehicle standards – a need which remains outstanding from the NAFTA and which was reinforced in the Partnership for Prosperity, b) the need to implement comprehensive Intelligent Transportation System (ITS) solutions at border crossings and in the ports and c) the development of a NAFTA flag to enhance short sea shipping opportunities.

In one sense, transportation is a success story. The International Registration Plan (IRP) and the International Fuel Tax Agreement (IFTA) have allowed some jurisdictional differences in cost structure while presenting a unified, simple interface for commercial vehicle registration through multiple jurisdictions.

It is very difficult to understand why the same principle cannot be applied to a variety of other barriers.

In summary, Atlantica has a great future with an excellent opportunity to help fuel the continental economy by functioning as a gateway to the world. To fully capitalize on the opportunity, we need to be more competitive. Nothing less than "best in class" is good enough anymore. The more obstacles that can be removed... the better.

That being said, transportation, administrative barriers, especially with regard to labour mobility and energy are the key areas for harmonization. In many cases,

unilateral action will suffice. There already is a working, single interface model for multiple jurisdiction agreements, we should leverage our successes.

Thank you for your time and I now welcome any questions.